



Aalto University
School of Business

Mikkeli Campus

CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE

An Empirical Analysis of Malaysian Listed Firms

Ming Wei Siw

Bachelor Thesis

Instructor: Heikki Rannikko

Date of submission: 10 April 2017

Declaration

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Author: Ming Wei SIW Title of thesis: Corporate Social Responsibility and Financial Performance – An Empirical Analysis of Malaysian Listed Firms
Date: 10 April 2017
Degree: Bachelor of Science in Economics and Business Administration
Supervisor: Heikki Rannikko
Objectives The main purpose of this paper is to examine the relationship between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP) in the context of Malaysian listed firms between year 2014 and 2016.
Summary This paper analysed the ROE and Tobin's Q between CSR and Non-CSR firm in the Kuala Lumpur Composite Index (KLCI) between 2014 and 2016 to test for the presence of a bidirectional relationship between CSR and CFP as per literature. The KLCI firms were segregated into CSR and Non-CSR by consulting the FTSE4Good Bursa Malaysia Index (FBMI). Among the methods used to test this relationship were Student's t-test, multivariate and logistic regression. Bootstrap confidence intervals of the regression coefficients were further used to determine the strength of the relationship.
Conclusions This study found that there is a positive and significant relationship between CSR and CFP in that CSR one year lagged is followed by improved CFP in the financial year. CFP one year before, however, does not seem to lead to decisions to engage in CSR. Therefore, this study proposes that Malaysian listed firms should engage in CSR as it forms a viable part of the strategy of a firm.
Key Words: Corporate Social Responsibility, Financial Performance, Malaysian Listed Firms
Language: English
Grade:

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ABSTRACT
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1. INTRODUCTION

Due to the recent rise of Corporate Social Responsibility (CSR) practitioners in Malaysia, it is interesting to discover not just the reasons behind it but also to analyse its effects (Haniffa and Cooke, 2005; Ahmed Haji, 2013). Indeed, it is paramount to examine CSR considering the main objective of the firm, that is, profit maximisation. To this end, this study will attempt to discover what the theoretical justifications for CSR are as well as to quantify the financial implications of CSR on Corporate Financial Performance (CFP) and vice versa.

1.1. Research Problems

Although there has been an extensive study globally on the effects of CSR on CFP and vice versa, nothing of that sort has been done in the context of Malaysia. Yet, CSR is on the rise in Malaysia, drawing attention to the question of whether does it contribute to CFP. Extant research has mainly focused on the profitability of CSR in western economies, which are composed of vastly different economic agents as compared to Malaysia. Moreover, even if there is a financial justification to CSR, it is interesting to discover whether there is a bidirectional relationship between CSR and CFP.

1.2. Research Questions

1. How does CSR affect CFP and vice versa?
2. How does CSR and CFP affects each other in Malaysia?
3. What are the managerial implications of CSR-CFP relationship on Malaysian firms?

1.3. Research Objectives

In order to study the proposed research questions, this study will conduct the following:

1. Review the literature on CSR to gain an understanding of key concepts in literature, in particular of its relationship vis-a-vis CFP.
2. Identify knowledge gaps in the literature
3. Construct hypotheses regarding CSR and CFP
4. Collect financial data on Malaysian listed firms

5. Analyse collected data to test the hypotheses
6. Report and discuss findings
7. Discuss potential future research and managerial and theoretical implications

Following this agenda, this study will have a structure consisting of eight main sections: Introduction, Literature Review, Methodology, Findings, Discussion, Limitations, Suggestions for Future Research and Conclusion. At the end of the Literature Review, a conceptual model is introduced as a means to visualise the relationships between CSR and CFP and how they are connected to the research questions.

2. LITERATURE REVIEW

From “The business of business is business”, a statement famously summarising Friedman’s dichotomous essay on CSR, to “The business of business is improving the state of the world” by Salesforce CEO Marc Benioff, CSR has come a long way since its inception (Friedman, 1970; Carroll, 1979; Carroll, 1991; Liu et al., 2015; Pontefract, 2017). Indeed, literature shows a rising level of CSR practitioners, paving the ever-widening path for firms to include social considerations in their daily workings, with any deviations being looked on sceptically as CSR forms part of “the expected repertoire” of a modern and legitimate firm in the current era (Davis, 1973; Siegel and Vitaliano, 2005; Gjørlberg, 2009). The proof of this is in the rising popularity of CSR among the Fortune Global 500 firms. Per Smith (2014), who was reporting for the Financial Times, CSR accounts for \$15 Billion of the expenditures of the Fortune 500 companies. To put it in perspective, up to 40% of the poorest countries in the world have a nominal GDP not amounting to \$15 Billion (StatisticsTimes, 2016). Therefore, it appears to be true that CSR is indeed a requisite element of the “corporate agenda” of the contemporary enterprise (Abdulrazak and Ahmad, 2014).

It is, nonetheless, ambiguous as to what motivated the outburst of CSR in the modern economy, given that traditional economic theory suggests that only the economically efficient firm survives, and little evidence in the literature suggests that CSR increases firm efficiency. Indeed, it appears more logical to conclude that CSR forms a part of pure expenditure by a firm to the betterment of the society. Therefore, Friedman’s opposition to CSR is fair, both from the viewpoint of the neoclassical economists as well as the investors.

Homo economicus, the classic assumption that men are only interested in furthering their own wellbeing, forms the mainstay of their opposition (Besley and Ghatak, 2007; Schmitz and Schrader, 2013). It is due to their self-interested bias that Bénabou and Tirole (2007:1) cited Pigou (1920) to reaffirm that “the state, and not citizens or firms, oversees correcting market failures and income or wealth inequality.” Thus, in their eyes, private individuals have little role to play in the field of CSR.

Drawing these diametrical views together, it seems illogical that firms would incur such exorbitant expenditures for the wellbeing of the society while their actions are fundamentally flawed and biased. Indeed, if the assertions by the neoclassical economists were indubitable, the managers would then be committing the crime which Friedman so abhorred by both “imposing taxes” and determining the disbursement of the “tax proceeds” (Friedman, 1970:2). This seems to affirm that the managers themselves are flawed and irrational to begin with as rationality dictates pure profit maximisation. Nonetheless, this claim is challenged by empirical studies proposing a positive relationship between CSR and CFP, so much so that Orlitzky et al. (2003) indicated that it is universal (Santoso and Feliana, 2014; Chen et al., 2015; Rodriguez-Fernandez, 2015).

It is, therefore, in the interest of the public that there be further comprehensive studies about the relationship between CSR and CFP. As similar analyses in the context of Southeast Asia are sparingly few, a study of a country in that region is necessary. The choice of South East Asia is justified by the alacrity of their growth and the decision of analysing Malaysia particularly lies in its extraordinary performance in relation to CSR and economic growth (OECD, 2016). In fact, several authors have correctly pointed out the mushrooming CSR initiatives in Malaysia in recent times, which makes the selection of Malaysia over many other qualified nations reasonable (ACCA, 2002; KPMG, 2002; Ahmed Haji, 2013). Although Malaysia is still a fledgling in CSR compliance as per Sheikh Abu Bakar and Ameer (2011) which might dissuade researchers for fear of data insufficiency, it is vital that the links between CSR and CFP be analysed in this country as the markets of socially responsible firms are still pure and untainted by complexities that have afflicted developed countries in the form of multiple stakeholders and heightening social expectations (Baron, 2007; Eabrasu, 2015). Moreover, compulsory CSR reporting in 2007 for all listed companies makes Malaysia among the pioneer in Southeast Asia (SEA) (Sheikh Abu Bakar and Ameer, 2011). Furthermore, the increased transparency of the Malaysians listed firms makes

information more accessible than those of its neighbouring countries, who tend to be disappointingly restricted. Hence, by looking at extant work, Malaysia is the most favourable ground to further the research on the connection between CSR and CFP.

Therefore, this literature review will first attempt to define CSR for the sake of greater clarity by analysing extant literature before revisiting the fundamental concepts and theories developed thus far behind CSR; and thence, delineate the link between CSR and CFP.

2.1. Definition

Whenever the topic of CSR is evoked, only a single observation is clear: “it means something, but not always the same thing, to everybody” (Votaw, 1972:25). Indeed, confusion exists as to how it should be defined (Davis, 1973; Hopkins, 2007; Santoso, 2014). It is decidedly perplexing for a subject as widely discussed as CSR to have a cavernous “lacuna” lurking at its core (Abdulrazak and Ahmad, 2014:211). The lack of a common definition, as suggested above, seems to be the main problem regarding the debate on CSR because it could lead to scholars discussing on the wrong topic when it comes to CSR (Jones, 1980; *ibid*, 2014). It has even led some researchers to conclude “we have looked for a definition and basically there [are not] one”, a statement suggesting confusion and pessimism (Dahlsrud, 2008:1). Thus, CSR apparently lacks consensus arguably where it is needed most (Davis, 1973; Carroll, 1979; Jones, 1980; Carroll, 1991; Dahlsrud, 2008; Santoso and Feliana, 2014).

However, the terse statement from Votaw offers a reason behind the difficulty in defining CSR: it is subjective in nature. By decomposing the term “CSR” to its core, it can be observed that there are three dimensions to it, i.e., the “Corporate”, “Social” and “Responsibility” aspects. Since CSR is fundamentally a function of what the corporations deem its responsibilities to be and what the society expects of them, it is in effect a fluid and versatile concept. Given that it is inconsistent and changing, it would seem implausible that CSR have a timeless definition. Following this train of thought, it becomes apparent that the observation given by Votaw generations ago marked the beginning of this seemingly futile effort by scholars to define CSR.

Nonetheless, a group of scholars seemed to converge in their opinions that CSR can be defined and most of them showed some agreement that profitability can sometimes coexist with society in ways leading to synergy between the firm and society. Indeed, by defining CSR as the consideration by the firm of issues beyond “the narrow economic, technical, and legal requirements of the firm”, Davis (1973:312) set the stage for the upcoming decades of discussions on the definition of CSR. In a way, this reflected an earlier work by McGuire (1963:144) although he gave CSR more gravity by describing it as “responsibilities” instead of simply “considerations” as per Davis (1973:312). Seeing that they were incomplete, Carroll gave a more updated and thorough definition for CSR by delineating in clear terms each of its aspects. He rightly argued that CSR should “embody the economic, legal, ethical and discretionary categories of business performance”, hence, he does not consider CSR the same way as Friedman, who suggested that the social responsibility of a firm is merely an economic duty (Friedman, 1970; Carroll, 1979:499). Indeed, Carroll reaffirmed this point by clearly stating that there is no distinction between the social and economic obligations of a firm; instead, he asserted that they form the “total social responsibilities of business (Carroll, 1979:503).” It, therefore, is apparent thus far that CSR forms the expectations that the society put on the firm and it is equally true that society does have “expectations of business over and above legal requirements” (Carroll, 1979:500). Moreover, it is interesting to note that CFP forms an essential element of CSR from its origins. By including the economic element in his definition, Carroll (1979) emphasised that profitability must have a role in CSR. Hence, CSR has been defined in terms of the different dimensions of the responsibilities of which the firm is being held accountable to the society, and these dimensions are simply: economic, legal, ethical and discretionary or philanthropic by the older authors (McGuire, 1963; Carroll, 1979; *ibid.*, 1991; Gjølborg, 2009).

Contemporary authors took a slightly different slant in defining CSR. Indeed, the European Commission (2001:6) regarded it as

A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

It was, per the analysis by Dalhsrud (2008:7), among the best given definition of CSR as it included up to five important dimensions: “voluntariness, stakeholder, social, environmental, economic”. By virtue of existing in both definitions, the economic aspect emphasised the

inherent congruence between CSR and CFP. Aside from this, the five remaining dimensions seemingly bear no resemblance to the four derived by the older school. However, deeper analysis shows otherwise. In fact, voluntariness and social dimensions are similar to the legal and ethical aspect of the previous definitions. By exceeding its legal and ethical requirements, the firm must voluntarily meet social expectations set on them. In addition, it may be argued that the stakeholder dimension is also closely related to the ethical aspect as pleasing stakeholders is, in many ways, about dealing ethically with the parties who are affected by the operations of the firm. This argumentation has been treated extensively by Jones (1980:59-60) and Jones (1995) who upheld that the corporations do have obligations to stakeholders, who are “constituent groups in the society other than stockholders”. Therefore, the main difference between these two sets of definitions lies in the philanthropic and environmental aspects.

By intimating that the philanthropic aspect of CSR is merely “icing on the cake”, Carroll (1991:42) appears to comment that philanthropy forms an insignificant part of CSR. Friedman (1970) most ardently dissented it as this involves the firm incurring expenses on purposes other than their core business thus potentially worsening CFP. In fact, Bénabou and Tirole (2007:2) proposed that by going beyond the call of duty, firms would sacrifice profits “in the social interest”. They seemed to affirm that friction between CSR and CFP exists fundamentally.

However, philanthropy, as Schmitz and Schrader (2013:27) claims, is a major method by which the companies present themselves to be “Corporate Citizens” as they have donated much to charitable causes such as schools, hospital and clubs. The use of altruism by both Jones (1980) and Zivin and Small (2005) in various forms to define CSR demonstrate their belief that philanthropy still holds as a valuable element of CSR. Fundamentally, philanthropy can be viewed as a form of expenditure to develop priceless social capital which might form a cushion in the event when they suffer reputation damage (Orlitzky et al., 2003; Besley and Ghatak, 2007; Abdulrazak and Ahmad, 2014; Santoso and Feliana, 2014). Thus, philanthropy not only seems to be a relevant aspect of contemporary CSR, they also indicate the positive relationship between CSR and CFP.

On the other hand, literature has also shown that the environmental dimension of CSR has recently become a more relevant concern, mainly due to rising awareness of the

environmental costs of business (Stern, 2006). This assertion can be proved by the inclusion of this aspect in definitions only very recently. Among the earliest source is the definition of the European Commission above. Porter and Kramer (2006:81), in their ground-breaking article, agreed that CSR should incorporate sustainability by insisting that contemporary businesses should not compromise “the ability of future generations to meet their own needs.” However, this opinion fails to consider that managers are, as Davis (1973:319) previously pointed out, “philosophically and emotionally unfit” to decide which causes to support in their CSR policies.

Regardless, seeing that global warming is a major issue and that environmental protection is among the least that firms can do to reduce harm, it would therefore seem that the rising trend of firms being environmental as observed by Rodriguez-Fernandez (2015) is an indication that society places a mantle on businesses to protect the environment. In fact, Bansal (2005) and Moneva et al. (2007), per Chen et al. (2015:445), went as far as to define CSR as the “contributions of companies to sustainable development”. Thus, despite the arguments brought against managers as the champion of the environment, it appears that there is a credible case for the environmental side to CSR.

Notwithstanding the normative nature of prevailing definitions, some authors chose to treat CSR in a descriptive manner by defining it in terms of “policies and activities” going beyond mandatory obligations (Siegel and Vitaliano, 2005; Halme, 2007:3; Sheikh Abu Bakar and Ameer, 2011). Although vague, they made it easier to analyse the link between CSR and CFP because the cause-effect model can be constructed with ease. Its practicality rivals that of the “strategic CSR” policy by Baron (2001) which Schmitz and Schrader (2013:38) claimed to be policies raising the “market value” of the firm.

After due discussion, it can be proposed that environmental and philanthropic considerations form appropriate dimensions of CSR that can be combined to form a more comprehensive definition. Therefore, the definition for CSR that harmonises between the pecuniary need and civil responsibilities of a firm should be defined in terms of five main dimensions: economic, legal, ethical, philanthropic and environmental. While they speculate responsibilities that may be a tall order for businesses to adhere to, Carroll (1991:48) concatenates them beautifully:

In frank, action-oriented terms, business is called upon to: be profitable, obey the law, be ethical, and be a good corporate citizen.

2.2. Theories Behind Corporate Social Responsibility

Despite the dichotomy regarding the definition of CSR, literature appears to be more unified in its opinions towards the purpose of CSR. This section will hence consider the grounds for CSR under three main headings, that are, “doing well by doing good”, “delegated philanthropy” and “insider-initiated philanthropy”. Among those proposed in literature, these are the most relevant vis-à-vis the objective of this paper.

2.2.1. Doing Well by Doing Good

A major driver for CSR lies in its potential to please the society, improving CFP in the process (Davis, 1973; Jones, 1980; Kotchen, 2006; Bénabou and Tirole, 2007; Kitzmueller and Shimshack, 2012). Indeed, Davis (1973:314) coined the term the “Iron Law of Responsibility [describing]...those who do not use power in a manner which society considers responsible will tend to lose it”. He explained CSR activities by taking them as the effort of the firm to maintain the mandate given them by the society. As Abdulrazak and Ahmad (2014:213) contend, if the firm fails to bear the onus set upon them, the mandate could be withdrawn “at any time”, suggesting an urgent need on the part of the firm to be CSR friendly or else suffer financially.

However, this argument made a glaring assumption: that society has absolute power over the firms. This assumption appears to be highly dubitable as there exist many socially undesirable firms such as tobacco firms. That they not only exist but also thrive in the economy seems to imply that society does not know what it truly wants. Thus, it follows that the financially wise firm need not invest in CSR activities as the society is an incompetent judge of rights and wrongs, and, hence, will remain unaware of their socially demeritorious actions. The firm could potentially aim only to increase returns at social expense. Thus, perhaps CSR for fear of society does not make sense.

Nonetheless, some authors found evidence of the social mandate theory by noting that the socially responsible firm “earn[s] higher profit”, a claim that has been supported by other empirical studies showing that CSR improve CFP (Orlitzky et al., 2003; Besley and Ghatak, 2007:1660; Santoso and Feliana, 2014). Schmitz and Schrader (2013) also considered CSR both as a communication and as signalling instrument for the firm. They argued that it is, on the one hand, an effective tool for the firm to communicate their public interest, and, on the other, a signalling apparatus to indicate their efficiency accruing to them providing high quality goods while affording the costs of CSR (ibid., 2013). In addition, Eabrasu (2015:S12) affirmed that monetary benefit “naturally” form a major incentive to CSR, further authenticating the notion that firms improves CFP by doing CSR.

Before this, Davis (1973:313) argued that true “low-cost production in the long run depends on the accomplishment of...social goods” with which Jones (1995) and Ahmed Haji (2013) agreed by claiming that CSR provides a competitive advantage while minimising the chances of causing a legitimacy gap vis-a-vis society. Additionally, Ahmed Haji (2013:648) took an interesting slant to their argument by alluding to the “legitimacy theory”, a cousin of the social mandate theory, whereby a legitimacy gap occurs in the event of incongruence between the values of the firm and the society. CSR can thus be seen as, preferably, a preventive measure and, occasionally, a remedial act. Indeed, this alludes to a normative statement by Porter and Kramer (2006:85), where CSR should “move from mitigating harm” to ameliorating the society. By extending this concept, they regarded it a “symbiotic relationship” between the firm and society (ibid., 2006:89). A vital implication from this is that firms will experience financial benefit by caring for society. Halme (2007:10) not only endorsed it but also gave this argument further treatment, arriving at the term “CR Innovation”, which is an idealised solution to the classical conflict between the society and firm. According to her, “CR innovation” will lead to a win-win outcome in the firm-society interaction (ibid., 2007:8). Therefore, CSR will theoretically aid in firm financial performance by fulfilling a precondition, that is, firm-society harmony.

In short, it can be suggested that firms take on CSR because it augments CFP (Kitzmueller and Shimshack, 2012). By showing that they care about the society, the firm either earns the social mandate and/or finds itself legitimised by the public. Accordingly, firms who have the social mandate will outlive and, by implication, outperform their counterparts who do not

have it. Therefore, this affirms the postulations made by various authors that, because CSR enhance CFP, firms do good because they want to do well (Jones, 1995; Orlitzky et al., 2003; Porter and Kramer, 2006; Zivin and Small, 2005; Besley and Ghatak, 2007; Santoso and Feliana, 2014).

2.2.2. Delegated Philanthropy

It has also been argued that CSR stems from investor demand for firms to be socially responsible on their behalf (Zivin and Small, 2005; Baron, 2007). Firms, as a result, have to adapt to meet this shareholder request for profit maximisation. This follows from a prediction by Davis (1973:313) where firms who meet social goals will successfully “capture a favourable public image”. Indeed, this is due to the belief that corporate giving is more efficient than personal giving due to extant information and transaction costs (Bénabou and Tirole, 2007). Therefore, CSR firms will capitalise on the perception that they are “charitable agents” to satisfy their shareholders, attracting capital and increasing the potential of gaining higher profits (Zivin and Small, 2005:2).

However, the “social cause selection effect”, whereby disagreement occurs between the owners and managers on the choice of social activities, might lead to agent-principal conflict (Baron, 2007:702). This echoed Carroll (1991:46) that CSR managers face difficulty in satisfying all stakeholders, who are “owners, employees, customers, local communities, and the society-at-large”. Thus, stakeholder mismanagement might cause the firm to “sink into...public disfavour” (Davis, 1973:321).

Nonetheless, stakeholder preference is a reason for CSR as “investors gain utility...through the knowledge that their funds are invested in companies whose management practices concord with their own” (Zivin and Small, 2005:12). By providing them the opportunity to a “positive externality with an investment return”, CSR firms enlarge their customer base and hence, are more likely to improve CFP (Kotchen, 2006:817).

2.2.3. Insider-Initiated Philanthropy

CSR has also been claimed to be due to the desire of the managers “to engage in philanthropy” (Bénabou and Tirole, 2007). It is perceptible that this form of CSR favours the managers more than the shareholders which might dissuade them from investing in the firm. However, Davis (1973:315) argued that managers fulfil their internal desire for philanthropy without sacrificing profits as the “lexicographic utility theory” propose. He theorised that because they have utility functions akin to the Maslow need hierarchy, the managers will first profit maximise and only then will they try to practice philanthropy (ibid., 1973). Hence, this form of CSR appears to be consistent with CFP.

On the other hand, literature generally opposes this form of CSR as it contains a fundamental loophole. Both Jones (1980) and Kitzmueller and Shimshack (2012) insisted that it constitute a moral hazard as managers should serve only the shareholders, not themselves. Baron (2007) reiterated Friedman (1970) in providing a sound advice to managers that they do CSR with their own funds. Therefore, this form of CSR comes in conflict with CFP and hence should not be practised in a profit maximising firm. Indeed, Besley and Ghatak (2007) affirmed that managers with philanthropic tendencies should work in a non-profit firm.

2.3. Corporate Social Responsibility and Financial Performance

By claiming that “ethics pays”, Jones (1995:417) set a precedent for the use of the instrumental stakeholder theory to prove that CSR has a positive impact on CFP. Per his instrumental stakeholder theory, he emphasised that CSR firms will be granted a competitive advantage due to “the ability to make credible commitments”, a result of CSR (ibid., 1995:417). As Orlitzky et al. (2003) and Rodriquez-Fernandez (2015) concur, successful stakeholder management will lead to heightened organisational performance. Moreover, CSR can be seen as a hedge against future activism or regulations (Baron, 2001; McWilliams and Siegel, 2001; Kitzmueller and Shimshack, 2012). Kitzmueller and Shimshack (2012) elaborated on this by pointing to CSR halting unionisation while attracting

a likeminded workforce. Therefore, instrumental stakeholder theory suggests that lowered costs and hence increased profits should result from CSR.

However, Bénabou and Tirole (2007) disagreed with the instrumental stakeholder theory by concluding, albeit without proper analysis, that CSR and CFP have almost zero correlation. Santoso and Feliana (2014) also pointed to the lack of categorical conclusions of whatsoever relationship between CSR and CFP thus justifying their own research. This confusion regarding this relationship stretches back to Aupperle et al. (1985) who theorised that CSR performance and profitability have no relationship at all, both in the short and long run. This reflects the pessimism of neoclassical economists, who argued that not only a positive relationship does not exist, but that “negative impact [is expected] on the product and stock market” (Chen et al., 2015:446). Thus, some authors have challenged the instrumental stakeholder theory by positing that CSR and CFP are not related at all.

As a result, researches investigating the relation between CSR and CFP have been anxious to prove that there exists a positive correlation. Indeed, several empirical studies and meta analyses have derived positive relationships, ranging from “universally positive” to “modest positive” (Orlitzky et al., 2003:423; Kitzmueller and Shimshack, 2012:71; Santoso and Feliana, 2014; Rodriquez-Fernandez, 2015; Chen et al., 2015). As claiming that these empirical studies alone are enough to disprove the detractors above is biased, the reasons behind the findings of the quoted studies ought to be analysed. Orlitzky et al. (2003) challenged previous meta-analyses by utilising a novel method of comparing past analyses before concluding, as did Waworuntu et al. (2014), Chen et al. (2015) and Rodriquez-Fernandez (2015), that CSR and CFP are linked positively. Although McWilliams and Siegel (2001) and Eabrasu (2015) proposed otherwise, Orlitzky et al. (2003:424) vehemently argued that these “negative findings in individual studies are artifactual”, thus arriving at an unquestionable conclusion that CSR is consistent with “shareholder wealth maximisation”, or in other words, CFP. This assertion is also consistent with the theory of Doing Well by Doing Good as presented above. Hence, extant literature affirms that CSR leads to CFP via the instrumental stakeholder theory. The first hypothesis, thus, is:

H1. CSR friendly firms achieves better financial performance

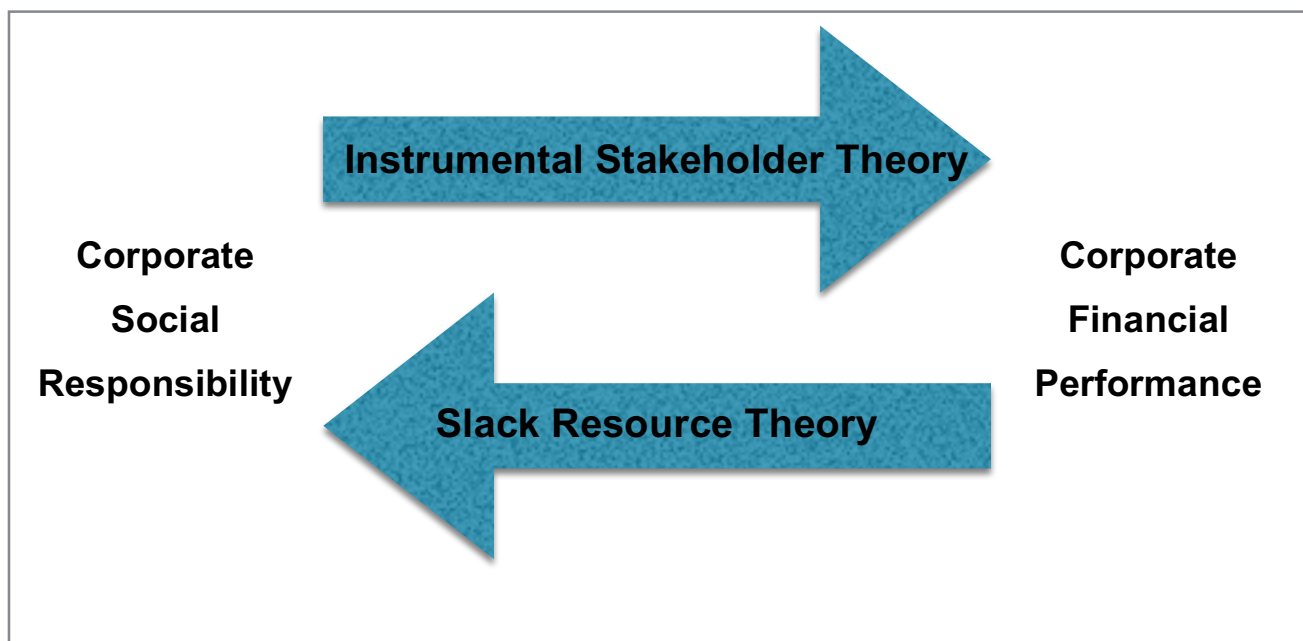
On the other hand, the “slack resource theory” as per Santoso and Feliana (2014) and Chen et al. (2015) takes a dissimilar path and yet arrives at the postulation that CSR and CFP should be positively related. However, the causation in this case is reversed. Additional financial resources will lead to increased CSR activities, which somewhat alludes to Insider Initiated Philanthropy. As McGuire et al. (1988) proposed that the decision to initiate or cancel CSR is based on the accessibility of finance, Santoso and Feliana (2014) claims that financial performance may provide the funds for managers to execute CSR, furthering the notion that this form of CSR conforms to the second class of CSR as presented. The second hypothesis, thus, is:

H2. Profitable firms will be the ones who practice CSR

Having distilled extant literature, it is seen that CSR enhances CFP via the instrumental stakeholder theory (Jones, 1995; Orlitzky et al., 2003; Kitzmueller and Shimshack, 2012). On the other hand, CFP will also meliorate CSR as proposed by the slack resource theory (McGuire et al., 1988; Santoso and Feliana, 2014).

2.4. Conceptual Framework

It is proposed thus that this thesis will attempt to test the relationships depicted on this framework, whereby CSR and CFP are related via two key theories, i.e., the Instrumental Stakeholder Theory and Slack Resource Theory, in a continuous and bidirectional cycle that enriches one another.



3. METHODOLOGY

This section will attempt to elaborate on the methods and justify the sample choice used to test the two hypotheses given above in the context of Malaysia.

3.1. Data Collection

In this study, the population of interest are Malaysian listed firms for the year 2014 - 2016. To narrow down the firms in the analysis, only the constituents of FTSE Bursa Malaysia Kuala Lumpur Composite Index (KLCI) were chosen to be analysed. The choice of KLCI is justified by the fact that it is significant enough to “define the market activities in the Malaysian stock market” aside from “one of the best references for the Asian-Pacific equity markets” (Azevedo et al., 2014:23; Kho et al. 2014; Chen et al., 2015: 74)

In order to segregate between CSR and non-CSR firms in KLCI, the FTSE4Good Bursa Malaysia Index (FBMI) was consulted. It was jointly created by Bursa Malaysia, the Malaysian exchange holding company, and FTSE to include only CSR firms that pass the strict requirements of FTSE (Bursa Malaysia, 2017; FTSE, 2017). Since the selection of firms in the FBMI is based on stringent criteria such as, labour standards and anti-corruption, issues relevant in SEA, firms included in FBMI are screened according to standards that are free from charges that they are not applicable to Malaysia (FTSE, 2017).

The financial information from KLCI firms was obtained from Datastream Advance while the constituents in FBMI were obtained from Bursa. The financial information required was ROE, total assets and market value of the firm between the year 2013 and 2016. The first year of data (2013) is used only to create lagged variables. However, information on the constituents of FBMI was only available from the year 2014 to 2016 since it was created in 2014.

3.2. Data Analysis

Data analysis took place using RStudio since it is a freely available and a powerful language for statistical analysis (James et al., 2015). Moreover, it contains many powerful statistical packages which allow for advanced statistical analyses (ibid., 2015).

In response to the hypotheses above, mean difference T-tests were conducted on ROE and Tobin's Q between CSR and Non-CSR firms for year 2014 - 2016. Independent observation and normal distribution were assumed for simplicity. By analysing ROE and Tobin's Q, the effect of CSR on managerial efficiency and stock market valuation can be seen clearly.

To further test **H1**, multivariate regression was used to analysed the relationship between CSR and CFP in the equation:

$$ROE_t + Tobin's Q_t = \alpha + \beta CSR_{t-1} + \gamma \ln Asset_t + \varepsilon$$

CSR_{t-1} , a dummy variable, is defined by the presence of KLCI firm in FMBI while $\ln Asset_t$ is the control variables as per McWilliams and Siegel (2000) and Rodriguez-Fernandez (2015). The CFP variables are ROE_t and Tobin's Q_t . Tobin's Q is defined as the ratio of the firm's market value and its asset value.

H2, defined as:

$$CSR_t = \theta + \mu ROE_{t-1} + \lambda Tobin's Q_{t-1} + \omega \ln Asset_t + \eta$$

required logistic regression since the dependent variable is categorical.

3.3. Data Reliability

As the financial data of KLCI constituents are public information due to legal requirements, the data used for this empirical analysis can be assumed to be reliable.

On the other hand, the constituents of FMBI are only available from Bursa for year 2016. The components of FMBI for year 2014 and 2015 had to be reconstructed based on FTSE report on index changes.

4. FINDINGS

Table 1: Descriptive Statistics

Statistic	N	Mean	St. Dev.	Min	Max
CSR Dummy (2014)	30	0.400	0.498	0	1
CSR Dummy (2015)	30	0.567	0.504	0	1
CSR Dummy (2016)	30	0.567	0.504	0	1
ROE (2013)	30	33.878	70.322	3.590	369.910
Total Assets (2013)	30	84,426,421.000	128,602,925.000	1,360,259	558,781,295
Market Value (2013)	30	33,709.990	20,950.100	6,632.790	88,089.000
Tobin's Q (2013)	30	0.002	0.003	0.0001	0.013
ROE (2014)	30	29.408	60.756	3.030	301.540
Total Assets (2014)	30	93,186,515.000	145,736,458.000	1,258,324	639,398,006
Market Value (2014)	30	33,551.720	20,825.050	9,788.580	85,455.440
Tobin's Q (2014)	30	0.002	0.003	0.0001	0.015
ROE (2015)	30	29.374	58.509	4.490	285.780
Total Assets (2015)	30	101,047,525.000	159,302,232.000	1,176,464	707,368,421
Market Value (2015)	30	33,909.070	20,379.030	12,081.990	81,998.630
Tobin's Q (2015)	30	0.002	0.003	0.0001	0.014
ROE (2016)	30	30.067	61.573	2.296	314.390
Total Assets (2016)	30	104,395,356.000	165,188,119.000	1,195,732	731,923,614
Market Value (2016)	30	33,386.970	20,335.860	11,530.320	83,584.190
Tobin's Q (2016)	30	0.002	0.002	0.0001	0.011

Note: All financial measures in Ringgit Malaysia for end of each financial year.

4.1. Descriptive

Model estimation was done based on 25 randomly chosen firms from the 30 available. The remainders were used to test the predictive powers of the model. The firms in the estimation sample were further segregated into CSR or non-CSR firms.

As a whole, the number of CSR firms in the KLCI rose from 12 to 17 between 2014 and 2015. There was no change in the number of CSR firms in the KLCI in the year 2016. Correlations between CSR variables and other financial variables are generally low and insignificant. However, the correlations between CSR variables of different years are high partly because CSR firms in 2014 are also compliant in the subsequent years and likewise for CSR firms in 2015. The correlations between ROEs of different years are also elevated, suggesting that ROE seldom deviate very much from year to year for one particular firm although the standard deviations for ROE in Table 1 are relatively high.

4.2. Classical Assumption Test

From extant literature, efficient and accurate regression modelling require the meeting of a few key assumptions. For multivariate regression, tests for normality, heteroscedasticity, autocorrelation and multicollinearity are the common requirements (Ahmed Haji, 2013; Santoso and Feliana, 2014). On the other hand, logistic regression requires a different set of tests to verify model efficiency. They are the goodness of fit tests and individual predictors significance tests.

The multivariate models did not fail the multicollinearity and autocorrelation tests. Variance Inflation Factor tests returned values less than ten, suggesting no multicollinearity and the Durbin-Watson test statistics was around two, suggesting low autocorrelation. Normality of data was tested using Anderson-Darling Normality Test while heteroscedasticity was tested using Breusch-Pagan and Non-Constant Variance Score. The models were Box-Cox transformed with lambda of around zero mainly as they failed the normality test. The transformed models returned residuals that are more normal and homoscedastic.

The logistic models required a different class of tests. For goodness of fit, the likelihood ratio, pseudo R squared and Hosmer-Lemeshow tests were conducted. Likelihood ratio tests were done using the **H2** models and null models returned p values ranging from 41% to 91%. However, the McFadden R squared values for the three models suggest poor fit, with none being greater than 0.1.

Nonetheless, the Hosmer-Lemeshow tests mirrored the likelihood ratio tests by showing that the 2014 and 2016 models outperform the 2015 model. Nonetheless, the Wald tests suggested that the independent variables are insignificant for all three logistic models.

Table 2: Correlation Between Variables

	CSR Dummy (2014)	CSR Dummy (2015)	CSR Dummy (2016)	ROE (2013)	Total Assets (2013)	Market Value (2013)	ROE (2014)	Total Assets (2014)	Market Value (2014)	ROE (2015)	Total Assets (2015)	Market Value (2015)	ROE (2016)	Total Assets (2016)	Market Value (2016)	Tobin's Q (2013)	Tobin's Q (2014)	Tobin's Q (2015)	Tobin's Q (2016)
CSR Dummy (2014)	1																		
CSR Dummy (2015)	0.714	1																	
CSR Dummy (2016)	0.714	0.714	1																
ROE (2013)	-0.190	0.191	-0.184	1															
Market Value (2013)	0.202	0.398	-0.033	0.989	1														
ROE (2014)	0.155	0.095	0.089	-0.180	0.580	1													
Market Value (2014)	0.158	0.392	0.079	-0.175	0.540	0.540	1												
ROE (2015)	0.167	0.397	0.087	-0.175	0.540	0.540	0.997	1											
Market Value (2015)	0.214	0.100	0.984	-0.179	0.984	-0.058	0.997	-0.203	0.018	1									
Total Assets (2015)	-0.081	0.206	-0.179	0.998	0.998	0.998	-0.175	0.999	0.549	-0.202	1								
Market Value (2015)	0.206	0.392	0.087	-0.175	0.540	0.540	0.997	-0.203	0.018	0.971	0.175	1							
ROE (2016)	0.208	0.164	0.970	-0.177	0.988	-0.067	0.996	-0.198	0.011	0.971	-0.197	-0.054	1						
Total Assets (2016)	-0.074	0.216	-0.177	-0.064	0.915	0.915	-0.174	0.959	0.554	-0.200	1.000	0.481	-0.196	1					
Market Value (2016)	0.083	0.358	0.358	-0.064	0.915	0.915	-0.085	0.921	0.951	-0.094	0.530	0.978	-0.094	0.533	1				
Tobin's Q (2013)	0.141	-0.205	0.141	0.989	0.989	0.989	0.989	-0.200	0.989	-0.094	-0.337	-0.095	0.746	-0.314	-0.49	1			
Tobin's Q (2014)	0.085	-0.059	0.826	-0.104	-0.327	-0.104	0.870	-0.320	-0.098	0.871	-0.337	-0.095	0.704	-0.336	-0.171	0.991	1		
Tobin's Q (2015)	0.107	-0.047	0.772	-0.127	-0.349	-0.127	0.825	-0.342	-0.098	0.831	-0.339	-0.115	0.704	-0.309	-0.171	0.991	0.991	1	
Tobin's Q (2016)	-0.068	-0.068	0.714	-0.133	-0.382	-0.133	0.798	-0.375	-0.126	0.807	-0.371	-0.126	0.680	-0.183	-0.183	0.981	0.981	0.995	1

4.3. Mean t-tests

Mean difference t-tests were first conducted to test the hypothesis that ROE and Tobin's Q for CSR firms are greater than that of non-CSR firms for year 2014 - 2016. The results of the t-tests suggest that ROE and Tobin's Q for CSR firms are not greater than that of non-CSR firms at 95% significance.

Table 3: ROE T-Tests

Year	Mean of ROE		T-test	P values
	CSR	Non-CSR		
2014	23.246	20.794	0.191	0.425
2015	20.284	25.654	-0.340	0.630
2016	23.551	20.715	0.213	0.417

Table 4: Tobins Q T-Tests

Year	Mean of Tobin's Q		T-test	P values
	CSR	Non-CSR		
2014	0.00163	0.00186	-0.243	0.595
2015	0.00133	0.00226	-0.774	0.773
2016	0.00120	0.00201	-0.856	0.796

4.4. Multivariate Regression

Table 5: Multivariate Regression Results

	<i>Dependent variable:</i>	
	ROE (2015) + Tobin's Q (2015)	ROE (2016) + Tobin's Q (2016)
	(1)	(2)
CSR Dummy (2014)	0.380* (0.220)	
log(Total Assets (2015))	-0.780*** (0.072)	
CSR Dummy (2015)		0.590 (0.360)
log(Total Assets (2016))		-1.100*** (0.120)
Constant	7.600*** (1.300)	14.000*** (2.100)
Observations	25	25
R ²	0.850	0.780
Adjusted R ²	0.840	0.760
Residual Std. Error (df = 22)	0.530	0.890
F Statistic (df = 2; 22)	62.000***	38.000***

Note:

*p<0.1; **p<0.05; ***p<0.01

Two models were created to test **H1** using the year 2015 and 2016 as reference years. Although models returned significant F statistics, only the first returned significant CSR statistic at 10%. Nonetheless, the coefficient for year 2016 can also be regarded as significant as its p value was at 0.117. Due to the Box-Cox transformation, the coefficients have to be raised to e for easy interpretation. These two models suggest that CSR one year prior have a positive relationship with ROE and Tobin's Q. It must be noted that the negative coefficients of log(Assets) merely meant that their partial effects are very small instead of being negatively related to CFP.

Table 6: Multivariate Regression Bootstrap Statistics

Coefficients	Average Bootstrap Estimate	Bootstrap Standard Error	Percentile Interval	Bias-Corrected and Accelerated Interval
Constant	7.574	44.905	(-0.581, 10.336)	(-0.096, 75.224)
CSR Dummy (2014)	0.384	4.89	(0.0109, 0.8020)	(0.0834, 1.0714)
log(Total Assets (2015))	-0.784	3.41	(-0.9407, -0.0375)	(-6.9376, -0.0742)
Constant	13.883	13.173	(0.53, 18.44)	(8.07, 836.50)*
CSR Dummy (2015)	0.595	0.726	(-0.1390, 1.1713)	(0.1919, 7.8890)
log(Total Assets (2016))	-1.079	0.957	(-1.317, -0.080)	(-60.409, -0.779)*

*Extreme order statistics used as endpoints. Interval may be unstable.

To gain a better picture of the coefficients, bootstrapping was done on the two models. Based on 10,000 replications, the CSR confidence interval, after raising to e, is still strictly positive and greater than one for the Bias-Corrected and Accelerated (BCa) Interval with 95% confidence. Among these two, the BCa interval is preferred to the Percentile interval as the BCa gives a greater confidence interval. Prediction using these two models using the hold out sample returned very low Root Mean Squared Error and Mean Absolute Error, suggesting relatively powerful predictive properties.

4.5. Logistic Regression

Table 7: Logistic Regression Results

	<i>Dependent variable:</i>		
	CSR Dummy (2014)	CSR Dummy (2015)	CSR Dummy (2016)
	(1)	(2)	(3)
ROE (2013)	0.006 (0.028)		
Tobin's Q (2013)	-148.000 (393.000)		
log(Total Assets (2014))	-0.210 (0.390)		
ROE (2014)		0.041 (0.040)	
Tobin's Q (2014)		-626.000 (553.000)	
log(Total Assets (2015))		-0.004 (0.430)	
ROE (2015)			0.020 (0.028)
Tobin's Q (2015)			-306.000 (421.000)
log(Total Assets (2016))			0.200 (0.420)
Constant	3.200 (6.900)	0.570 (7.700)	-3.100 (7.600)
Observations	25	25	25
Log Likelihood	-16.000	-16.000	-16.000
Akaike Inf. Crit.	40.000	40.000	41.000

Note:

*p<0.1; **p<0.05; ***p<0.01

Three models were created for year 2014, 2015 and 2016 to test **H2**. Although the coefficients suggest a positive relationship between CSR and ROE one year prior, none of the coefficients are significant. Moreover, the efficiencies of these three models are questionable especially due to the high standard errors for the Tobin's Q variables. Although the bootstrap coefficients for the first model are not trustworthy due to the extremely high standard errors, the two subsequent bootstraps estimates point to positive though extremely

small partial effects of ROE one year prior relative to CSR. Since both removing Tobin's Q and modifying ROE does not make the model significant, it may be concluded that **H2** models do not have very good fit in general.

Table 8: Logistic Regression Bootstrap Statistics

Coefficients	Average Bootstrap Estimate	Bootstrap Standard Error	Percentile Interval	Bias-Corrected and Accelerated Interval
Constant	3.170	6.693e+14	(-47.644, 23.221)	(-22.747, 43.223)
ROE (2013)	0.006	9.794e+11	(-0.2045, 0.2622)	(-0.2329, 0.2120)
Tobin's Q (2013)	-148.309	3.748e+16	(-891.3, 4665.5)	(-1313.2, 2365.9)
log(Total Assets (2014))	-0.210	3.394e+13	(-1.4079, 2.4076)	(-2.5005, 1.2150)
Constant	0.574	2540.860	(-44.4869, 22.9343)	(-25.0550, 38.1933)
ROE (2014)	0.041	15.022	(-0.1118, 0.4474)	(-0.3441, 0.1880)
Tobin's Q (2014)	-626	184160.154	(-2588.5, 3732.5)	(-3716.7, 2174.4)
log(Total Assets (2015))	-0.004	132.184	(-1.2737, 2.3292)	(-2.0936, 1.3943)
Constant	-3.106	1695.946	(-58.912, 13.707)	(-27.690, 30.715)
ROE (2015)	0.020	11.779	(-0.1866, 0.3116)	(-0.5592, 0.1399)
Tobin's Q (2015)	-305.829	82147.939	(-1647.2, 3995.1)	(-2425.0, 2649.0)
log(Total Assets (2016))	0.198	101.606	(-0.7485, 3.1044)	(-1.7067, 1.5287)

However, prediction with these three models on the hold out sample returned impressive hit rates. Hit rates are defined as the chance of reporting either a true positive or a true negative. Using a cut-off value of 0.5, the 2014 and 2016 models both had a hit rate of 60% while the 2015 model had remarkable 80% accuracy.

5. DISCUSSION

The analyses show that CSR one year prior have a gentle but positive relationship with CFP consistently for years 2015 and 2016 while CFP one year prior have a very mild to non-existent relationship with CSR decisions. Although no causal relationship can be drawn from this, the results seem to affirm the prediction that Orlitzky et al. (2003) and Santoso and Feliana (2014) made. Their empirical analyses shown that CSR leads to improved CFP. This study seeks to augment the findings by Santoso and Feliana (2014) that the positive relationship between CSR and CFP is not only limited to ROA but also to ROE. Thus, the findings seem to affirm that the instrumental stakeholder theory is prevalent in KLCI.

However, the results from the mean t-tests imply that being CSR friendly or not does not significantly alter the ROE or Tobin's Q. This seems to reject the underlying argument that CSR increases profitability. Putting this result together with the regression analyses, they appear to contradict each other. Although regression analyses propose positive and

significant results, mean t-tests do not. However, as noted earlier, the high standard deviation of ROE from Table 1 along with the significantly positive correlations between the ROEs of different years led to the conclusion that firm ROEs do not vary much yearly. Moreover, neither do high ROEs signify firm profitability. It might simply be due to the nature of their industry. For example, it cannot be assumed that DIGI.Com Berhad is the most profitable firm in Malaysia because its ROE is more than ten times above the mean. A simple analysis of the books shows that this is due to different firm leveraging decisions (DIGI.Com, 2016).

On the other hand, the findings do not support the slack resource theory that CFP one year prior leads to CSR in the next year. As a whole, the poor fit of the models shows that CFP one year lagged is not a good predictor of CSR decision. In particular, the insignificance of the coefficients of Tobin's Q shows that CSR decision does not come from the performance of the firm in the stock market. In addition, the insignificant ROE coefficients further show either that slack resources in the firms do not necessarily lead to CSR or that the choice of treating high ROE as a slack resource is not true. This finding seems to conflict with that of Rodriguez-Fernandez (2015) who found that slack resource theory leads to CSR decisions in Spain. It is possible that CSR decisions cannot be defined in terms of financial performance alone as other variables, i.e., R & D expenditure as per McWilliams and Siegel (2000) and ROA, are pivotal too. However, due to the lack of data on these variables for KLCI, this study did not consider these variables.

Since it is not the purpose of this study to determine the exact mechanisms by which CSR affects the stakeholders of the KLCI firms, it will never be known from the results as to whether the positive relationship between CSR and CFP one year lagged is due to managerial efficiency alone or support from other stakeholders. Thus, it will not be known as to what was exactly the purpose of CSR for these firms. Moreover, due to the treatment of both ROE and Tobin's Q as a composite dependent variable, multivariate regressions did not yield any coefficients and standard errors to allow for their decomposition. Hence, the positive effect of CSR onto each of those two variables will not be known unless via the application of different models and techniques.

In short, vis-a-vis the hypotheses proposed, empirical analyses support **H1** whereby CFP one year prior leads to CSR. However, the assertion of **H2** finds no backing from this study.

In particular, this study questions the validity of a model like that proposed in **H2** mainly due to the poor results.

5.1. Implications to Theory

This study contributes to the general body of knowledge by showing through empirical analyses that CSR does have a positive relationship with CFP in the context of Malaysia. This can be taken as a proof that ethics do pay. However, this relationship is not bidirectional as other authors suggest. Indeed, the “virtuous cycle”, as per Surroca et al. (2010) and Rodriguez-Fernandez (2015:146) failed to materialise under scrutiny. As this theory has been proposed mainly by western authors, the difference in societal values could be an important factor in the failure of this relationship. Although qualifying for the FBMI requires meeting a robust set of screenings, CSR in Malaysia, which is predominantly a Muslim country, might emphasise on other vital aspects. For instance, Abdulrazak and Ahmad (2014: 215), modifying the work of Porter and Kramer (2002), proposed that the “Shared Value theory” as a basis of CSR in Malaysia. However, researches on this topic are still in its infancy and researchers have not been agreeing on any theory to explain CSR in Malaysia.

Nonetheless, this study also advises caution in the interpretation of the results. This is because the analyses conducted here are merely exploratory in nature and the theories on which they are built are developed in more developed countries. As a result, CSR might be measured differently in Malaysia.

5.2. Implications to Practice

It is unfortunate that CSR carries the connotation that it is merely another “public relations gimmick [for] publicity every now and then” in Malaysia (Ahmad & Sulaiman, 2004; Abdulrazak and Ahmad, 2014:212). This seems to suggest that CSR is merely the accessory of an already successful company. Moreover, it can also be implied that there is not any incentive for firms to build their identity on CSR. This could be due to their fear of the social stigma that they are insincere due to their extensive CSR. However, this study calls for firms to be more proactive and innovative in practising CSR. Despite the lack of commitment to CSR as per suggested by literature, this empirical study shows that there is

a positive relationship between CSR and profitability. Thus, this study proposes that Malaysian firms should give serious considerations to CSR in their business strategy.

One of the practical ways that Malaysian firms can incorporate CSR is to make their CSR reporting more readable and hence, understandable. Sheikh Abu Bakar and Ameer (2011) found CSR communication in Malaysia to be ineffective, which prevents feedback from the relevant stakeholders. By opening on their CSR initiatives, Malaysian firms can more effectively redirect their efforts and to redesign their programmes to be more stakeholder focused. Indeed, it would a pity that CSR activities are merely to be regarded as a public relations programme whereas it can form a practical and profitable business strategy (Porter and van der Linde, 1995; Porter and Kramer, 2006; Halme, 2007). The strategic CSR from Baron (2001) and CR Innovation from Halme (2007) are among the advocates of CSR integration in the core business strategy.

6. LIMITATIONS

The main drawback of this study is that no causation can be drawn from the empirical analyses. As warned by Eabrasu (2015:S19), any attempt at drawing causation faces the risk of committing the “post hoc ergo propter hoc fallacy”. Thus, this study is painfully limited by its exploratory nature as no random assignment is done onto the studied sample. Another important observation is that although the KLCI is a significant index in Malaysia, it cannot fully reflect the realities in Malaysia, thus preventing the research from being generalised to the population of Malaysian firms.

Moreover, the sample and time frame for this study is also very small, which does not permit conclusive data analyses to be done. In addition, the fact that the FMBI was only created a few years might mean that FTSE have not fully researched all potential firms which can qualify for it, thus excluding potential KLCI firms who are CSR-friendly. Furthermore, the data only permitted short term speculations as there has yet to be long term observations of how FMBI firms perform.

7. SUGGESTIONS FOR FUTURE RESEARCH

In light of the limitations above, this study calls for researchers to delineate the mechanisms which CSR can occur in Malaysia. This form of study might require methods such as case study or focus group to allow for in depth understanding of the topic at hand. Moreover, it is also hoped that researchers will investigate the long term financial effects of being included in the FMBI as well as those who were removed from this index for whatsoever reasons. If the instrumental stakeholder theory holds true, there should be financial repercussions due to their non-CSR behaviour. Finally, it might also be interesting to conduct this research on a grander scale, that is, to include all Malaysian firms in similar analyses, to see if the relationship found in the KLCI extends to other firms.

8. CONCLUSION

This study aimed to determine if there is a bidirectional relationship between CSR and CFP in the context of Malaysia. As suggested by literature and empirical analyses, this study supports the claim that CSR does lead to improved CFP one year later in the KLCI as proposed by the instrumental stakeholder theory. However, there appears to be no significant proof that CSR stemmed from CFP one year prior as suggested by the slack resource theory. Hence, it is in the best interest of the firms that they include CSR in their business operations and that the public become better informed on social issues that they might both empower each other to ultimately increase the social welfare in Malaysia.

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